



UNIVERSITI PUTRA MALAYSIA

**PRODUCTIVITY OF ZANZIBAR TOURISM PROJECTS
UNDER THE PRIVATE DIRECT INVESTMENTS (1990-99)**

MOHAMMED HAFIDH KHALFAN

FEP 2002 6

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**DOCTOR OF PHILOSOPHY
UNIVERSITI PUTRA MALAYSIA**

2002



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(1990-99)**

MOHAMMED HAFIDH KHALFAN

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia,
In Fulfilment of the Requirement for the Degree of Doctor of Philosophy**

April 2002



**DEDICATED TO
MY PARENTS,
MY WIFE AND OUR KIDS,
MY BROTHERS AND SISTERS,
THOSE WHO HAVE CONTRIBUTED SOMETHING
INTO MY LIFE HOWEVER TRIVIAL IT MAY SEEM.**

Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirements for the degree of Doctor of Philosophy

**PRODUCTIVITY OF ZANZIBAR TOURISM PROJECTS
UNDER THE PRIVATE DIRECT INVESTMENTS
(1990-99)**

By

MOHAMMED HAFIDH KHALFAN

April 2002

Chairperson: Professor Maisom Abdullah, Ph.D.

Faculty: Economics and Management

Zanzibar islands, in East Africa, form a semi autonomous part of the United Republic of Tanzania. From early 1980's, the Zanzibar Government diversified its economy after realising that its mono-crop economy could not sustain the development momentum, owing to the decline in clove prices, its main cash crop.

The isles' diversification measures have resulted in massive inflow of foreign direct investments (FDI). Nominally, it may be remarkable that over 50 percent of the licensed FDI fall in the tourism industry. The industry employs more than 60 percent of the investment workforce. However, in order to achieve Zanzibar's immediate goal of improving development momentum and long-term sustainable growth, it is necessary to empirically understand the performance of this important segment of the diversified economy.

The main objective of this study is to explore the general performance of tourism projects under the Zanzibar Private Direct Investments, and the

specific objectives are: (i) to provide alternative measures of productivity in the selected establishments; (ii) to compare the productivity pattern between local and foreign owned establishments; and (iii) to measure the contribution of capital and labour inputs to the discovered pattern.

Economists claim that, there are two prime sources contributing to economic growth of a nation, employment growth and productivity growth. In exploring the latter, the study uses two models; while the first employs partial indicators, the second on total productivity is based on the framework developed by Gollop and Jorgenson (1979).

The results have highlighted the dichotomy of the Zanzibar tourism industry, where large, and well-managed foreign-owned-projects co-exist with smaller, less funded locally owned ones. Using different aggregation methods produced contradicting results. Yet, in overall, the foreign projects outshined the locals in many aspects. For instance, though local projects generated more employment opportunities (59%), indicating their dependence on labour-intensity in production, the foreign projects surpassed their local counterparts in cost competitiveness, efficiency and productivity growth. The results suggest that, more concerted efforts are needed to improve the performance of local investors.

The scope of study, however, limits the analysis to the above. In depth analysis of the structure of projects/firms could not be covered due to data constraints.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

**PRODUKTIVI PROJEK PELANCONGAN DI ZANZIBAR
DIBAWAH PELABURAN LANGSUNG ASING
(1990-99)**

Oleh

MOHAMMED HAFIDH KHALFAN

April 2002

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Kepulauan Zanzibar, di Afrika Timur, merupakan wilayah autonomi di United Republik Tanzania. Dari awal 1980an, Kerajaan Zanzibar telah mempelbagaikan ekonominya setelah menyedari bahawa ekonomi yang berasaskan tanaman tunggal tidak dapat menyediakan momentum pembangunan ekonomi yang mampan disebabkan harga cengkih yang rendah. Komoditi itu merupakan tanaman kontan utama negara tersebut.

Langkah pelbagaian ekonomi membawa kepada kemasukan pelaburan langsung asing yang besar. Secara nominal, ianya merupakan lebih 50 peratus daripada nilai lesen pelaburan langsung asing di dalam industri pelancongan. Industri tersebut juga menyediakan lebih daripada 60 peratus daripada peluang pekerjaan yang terhasil daripada pelaburan negara. Namun demikian, bagi mencapai matlamat jangka pendek dan jangka panjang yang mampan, adalah perlu prestasi sektor penting ini dikenali secara empirikal.

Objektif utama kajian ini adalah untuk meninjau prestasi keseluruhan projek pelancongan dibawah Pelaburan Swasta Zanzibar, dan matlamat khususnya adalah seperti berikut: (i) menyediakan perkiraan produktiviti alternatif dalam projek yang terpilih; (ii) membandingkan corak produktiviti di antara projek asing dan tempatan; dan (iii) mengira sumbangan input modal dan buruh dalam corak produktiviti yang dikenalpasti.

Ahli ekonomi sering berpendapat, terdapat dua sumber utama yang menyumbang kepada pertumbuhan ekonomi sebuah negara; iaitu pertumbuhan peluang pekerjaan dan pertumbuhan produktiviti. Bagi meninjau pertumbuhan produktiviti, kajian ini telah menggunakan dua model; pertama petunjuk partial dan kedua produktiviti keseluruhan berdasarkan rangkakerja empirikal yang dibangunkan oleh Gollop and Jorgenson (1979).

Penemuan daripada kajian ini telah menonjolkan dikotomi dalam industri pelancongan Zanzibar, di mana projek yang besar dan diuruskan dengan baik, wujud seiringan dengan projek tempatan yang kecil dan mempunyai modal yang kecil. Dengan menggunakan metod *aggregation* maka terhasil penemuan yang kontradik. Namun demikian, didapati projek asing memperlihatkan prestasi yang jauh lebih baik. Sebagai contoh, walaupun syarikat tempatan menjana lebih banyak peluang pekerjaan (59 peratus) ianya memperlihatkan bahawa ianya amat bergantung kepada buruh yang lebih tinggi dalam penyediaan perkhidmatan mereka. Syarikat asing pula mempunyai kelebihan dari segi daya saing kos, kecekapan dan pertumbuhan produktiviti. Penemuan ini menunjukkan bahawa usaha yang lebih gigih diperlukan untuk

meningkatkan prestasi pelabur tempatan.

Skop kajian ini walaubagaimana pun mempunyai batasan terhadap analisis di atas.

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I certify that an Examination Committee met on 15th April 2002 to conduct the final examination of Mohammed Hafidh Khalfan on his Doctor of Philosophy thesis entitled "Productivity of Zanzibar Tourism Projects under the Private Direct Investment (1990-99)" in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulation 1981. The Committee recommends that the candidate be awarded the relevant degree. Members of the Examination Committee are as follows:

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DECLARATION

I hereby declare that the thesis is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that this thesis has not been previously or concurrently submitted for any other degree at UPM or other institutions.



MOHAMMED HAFIDH KHALFAN

Date: 22 - 04 - 2002

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LIST OF ABBREVIATIONS

ADB	African Development Bank
BOT	Build Own Transfer
BoT	Bank of Tanzania
CCR	Charnes, Cooper and Rhodes
CfT	Commission for Tourism
COLE	Commission for Land and Environment
DEA	Data Envelopment Analysis
DFID	Department For International Development
DoS	Department of Statistics, Zanzibar
ECA	Economic Commission for Africa
ERP	Economic Recovery Programme
GDP	Gross Domestic Product
HIV	Human Immunodeficiency Virus
IFC	International Finance Corporation
MIDA	Malaysian Industrial Development Authority
MNC	Multi National Corporations
MTC	Ministry of Transport and Communication
NWA	Northern Wild field Area
ODA	Overseas Development Agency
RIA	Regional Integration Agreements
Rm	Malaysian Ringgit (dollar)
TFP	Total Factor Productivity
TFPG	Total Factor Productivity Growth
TzS/TShs	Tanzanian Shilling
UPM	Universiti Putra Malaysia
URT	United Republic of Tanzania
USD (\$)	United States Dollar
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
WB	World Bank
WIR	World Investment Report
WTO	World Tourism Organisation
ZAFREZA	Zanzibar Free Economic Zones Authority
ZANTEL	Zanzibar Telecommunication
ZELUP	Zanzibar Economic and Land Use Plan
ZIPA	Zanzibar Investment Promotion Agency
ZSTCA	Zanzibar Stone Town Conservation Authority

Definition of Terminology

Tourism

Tourism: In common parlance and sociological research, tourism is identical to pleasure travel. From that consideration, tourism is a leisure pursuit and can be considered as a form of consumption. However, besides being an activity in the consumption sphere, tourism can also be viewed as a production activity.

Tourism Industry: It is quite accurate to refer to tourism and travel as an “industry” because it produces markets and provides ‘products’.

The product: Tourism product is ‘intangible’; it is non-material and cannot be seen, felt, tasted, heard or smelt. A tourist product is commonly called a ‘tour’, which can be in the form of a ‘cruise’ (travel by water) or a trip (a day excursion). Moreover, a tour may be a ‘domestic’ one taken entirely within a country, or an ‘international’ tour, taken in one or more countries abroad.

Attractions: Attractions are the reason for selection of a destination. A single or a group of attractions, together with services, make up the product that the tourist purchases. There are primary attractions that are a core set of attractions (e.g. Twin Towers of Kuala Lumpur, historical Stone Town of Zanzibar, Mount Kilimanjaro of Tanzania, etc.). Secondary attractions are basically additional to primary ones in nature. They are subjective depending on what a tourist considers primary or the main reason, and what is additional attraction or secondary.

Private Direct Investment

Direct Investment (DI) refers to the extension of controlling ownership by a firm in one country to another firm in another country through new investment or acquisition (Grosse and Kojawa, 1988).

Foreign Direct Investment (FDI) is a method of entering foreign markets by investing in manufacturing facilities abroad (Curdiff and Hilger, 1988). This can apply to other industries as well, and is not confined to manufacturing alone.

CHAPTER 1

INTRODUCTION

1.1 Introductory Remarks

Zanzibar archipelago lies in the eastern coast of Africa just south of the Equator. It is about 35 km off the coast of mainland Africa. The archipelago comprises the main islands of Unguja and Pemba along with about 50 other smaller islets. Unguja, which itself is commonly called Zanzibar and hosts the administrative headquarters of the archipelago (Zanzibar town), has an area of 1464 square kilometres (kms). On the other hand, Pemba is about 868 square kms.

The predominantly Muslim population of the islands is estimated to be close to a million and made up of cosmopolitan people from different parts of the world including Africa, Asia and Europe. As shown by Bakari (2001), despite her racial diversity, Zanzibar is socially and culturally a relatively homogeneous community with a high level of social integration measured by inter-ethnic marriages and other cultural intermingling.

Prior to the isles' independence in December 1963, they were a sultanate under the British Protectorate. The new post-independence elected government was in power for a month. Following the January 12, 1964 revolution, Zanzibar united with Tanganyika on April 26, 1964 to form the United Republic of Tanzania. Under the union accord, Zanzibar still maintains some autonomy by having its own government to be headed by the Zanzibar President, with Legislative body and the Judiciary.

According to the current arrangements, Zanzibar is responsible for its socio-economic administration and development planning; managing its fiscal budget and servicing of external debts. For instance, in early 2000 Zanzibar launched its long-term development vision, known as Vision 2020 (Appendix A1.1).

This study focuses on the Zanzibar economy after diversification, which was a result of both economic and political reasons (as shown in Appendices A1.2 and A1.3). This led to liberalisation of economic activities, shifting from government monopoly in all major economic activities to the current status whereby the private sector plays a significant role in the economy. The opening up of the economic activities has resulted in an influx of foreign direct investments especially in the tourism industry.

The main topics of the study focus on the areas of private direct investments, tourism and productivity. While a brief remark on the main topics of the study is presented in this introduction, the details follow in the respective chapters of the study. In this study, the words foreign direct investments (FDI) and private direct investment in general are sometimes used interchangeably. It is the context that specifies the intended use of the term.

The discussion on private direct investments, which involves local and foreign firms, is dominated by the influence of FDI. The main reason behind this is that, though developing countries tend to encourage both domestic and foreign investments, the FDI are more popular owing to their impacts in some host economies that normally

suffer from lack of adequate foreign currency reserves, widespread unemployment and obsolete technologies.

The impact of FDI on developing countries is appreciated through its role in capital inflow, and sometimes in the transfers of technologies or managerial expertise. Other FDI's positive contributions to a host country's economy may be realised through the following ways:

- Increased domestic competitiveness and private sector development
- Contribution towards allocative efficiency and productivity
- Greater access to export markets, and
- Incentives toward policy reform.

Though it is alleged that FDI is a stimulant to foreign trade (even if an investment is domestically oriented), in cases where a host country has been overly generous in granting concessions such as energy subsidies or export bonuses, foreign direct investments can produce mixed results. Therefore, it may be cautioned that, FDI does not save a country, especially if it ignores other macroeconomic or structural issues facing its economy. Owing to the significant role given to incentives in FDI promotion, their further deliberation is necessary, whereby pros and cons will be presented.

The interest in FDI among developing countries is a result of both political and economic variables. For instance, following the demise of the cold war, the official development assistance flows to non-European developing countries showed a